Research

Economy Watch

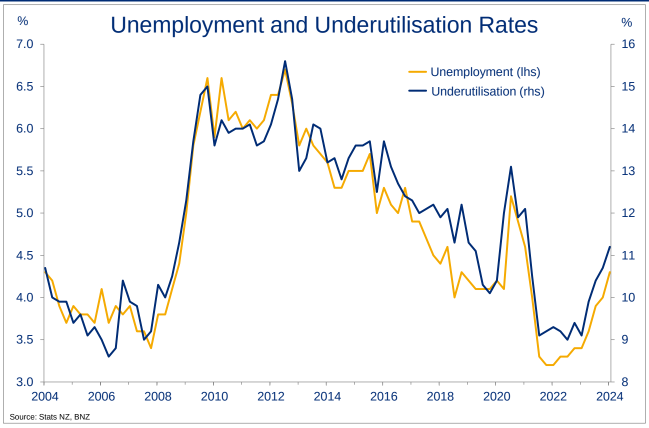
1 May 2024

Labour market softens

- **Unemployment rate higher than RBNZ expectations**
- **As migration-driven supply exceeds demand**
- **Consistent with our more pessimistic view**
- **Wage growth trending lower**
- **Data add comfort to RBNZ's easing expectations**

In totality, today's labour market data were a smidgen softer than we anticipated. The 4.3% unemployment rate for the March quarter was bang on our expectations but both employment (-0.2%) and the participation rate (71.5%) surprised to the low side. Capping things off, the underutilisation rate rose to 11.2% from 10.7% to be more than two percentage points higher than where it stood this time last year.

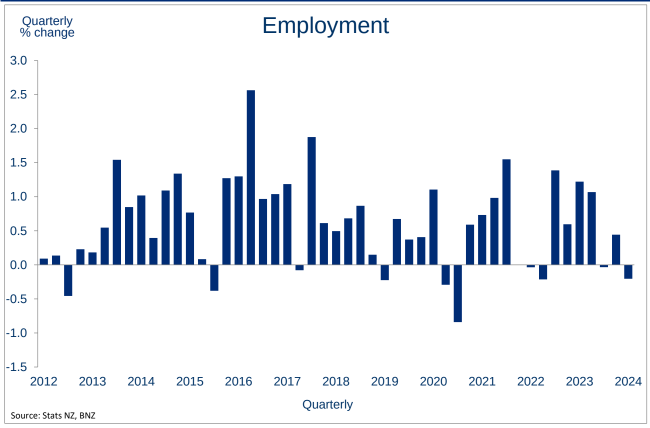
Labour market eases further



All of this fits with our broad view that the labour market is easing and easing relatively quickly. Cumulatively, only 6,000 new jobs (net) have been created over the last three quarters and this is all attributable to the jump in the December quarter, which may well be election related. The 6,000 decline in Q1 (-0.2%) is possibly as much a correction from the December jump as anything else but is still suggestive of a slump in demand for new hiring.

Some headline writers have concluded the data reflects the layoffs that are occurring in the state sector. It is true hiring of government employees seemed to stall from late last year onwards, but we think the "re-sizing" won't really show up properly until we see the Q2 and Q3 data.

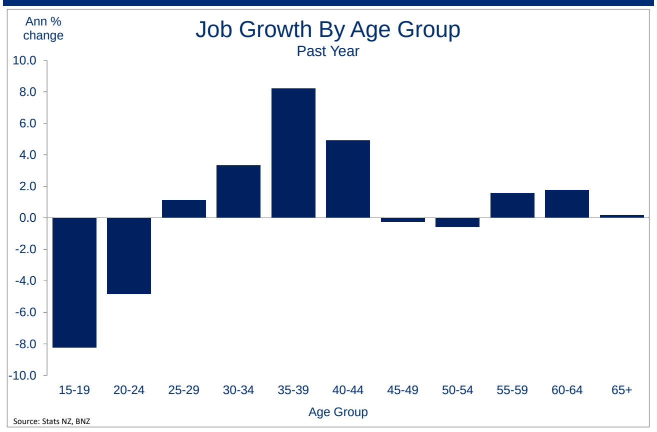
Employment drops



Movements in employment by age group provide some interesting observations. It would appear the strong run up in youth employment we saw in 2021/22, when the supply of labour was limited, is reversing. Youth (15 to 19 year old) employment fell 4.5% between March 2023 and March 2024. To the extent this represents youth furthering their education this is probably a good thing. To the extent it is affecting the incomes of struggling households it may be problematic.

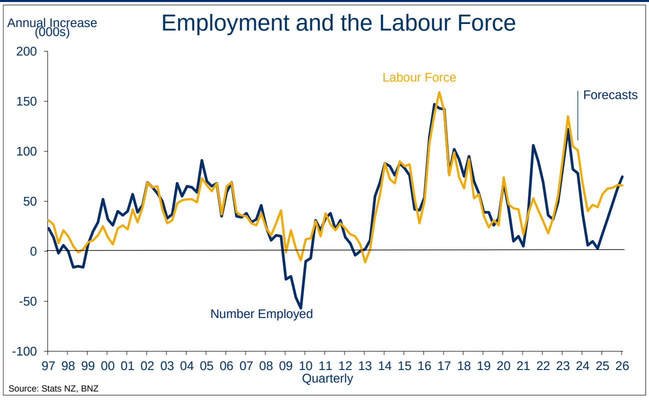
In sharp contrast, annual job growth in the 35 to 39 age group was 8.2%! One can only assume this is a direct reflection of the massive surge in the working age migrant population we have witnessed over the last year or so.

Youth out, middle age in



It would appear migration growth is now slowing and, with it, working age population. Seasonally adjusted working age population grew 0.64% in Q1 down from 0.74% a quarter earlier and a peak of 0.87% in June 2023. Nonetheless, the growth in labour supply that it is driving is moving further and further ahead of the demand for labour. The working age population grew by 67,000 between March 2023 and March 2024. Employment grew by just 37,000 over the same period.

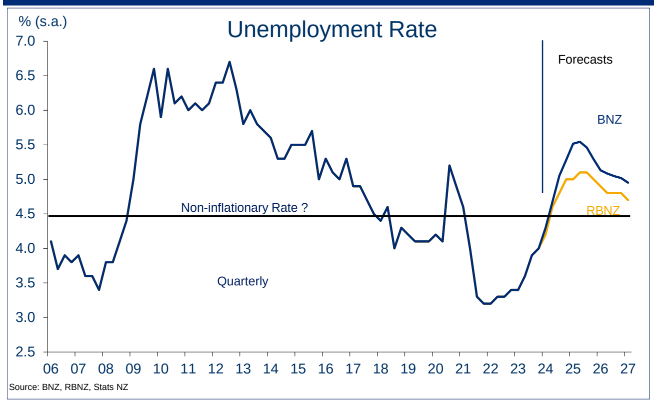
Supply exceeds demand



While the detail of the employment report was a little different to our expectations the broad picture was not. Accordingly, we stick with our view that the unemployment rate will head for 5.5% in calendar 2025 and will stay there for much of the year. Employment lags economic activity and we don't see any meaningful pick up in GDP until late this year at the very earliest.

Importantly, our view of the labour market is, and has been, weaker than the RBNZ's. The Bank has the unemployment rate peaking at 5.1%. This quarter's unemployment reading was 0.1% higher than the RBNZ's 4.2%. While relatively insignificant, we think this deviation is a sign of things to come. This will keep the pressure on the RBNZ to ease a little sooner than the Q2 2025 its February MPS intimates.

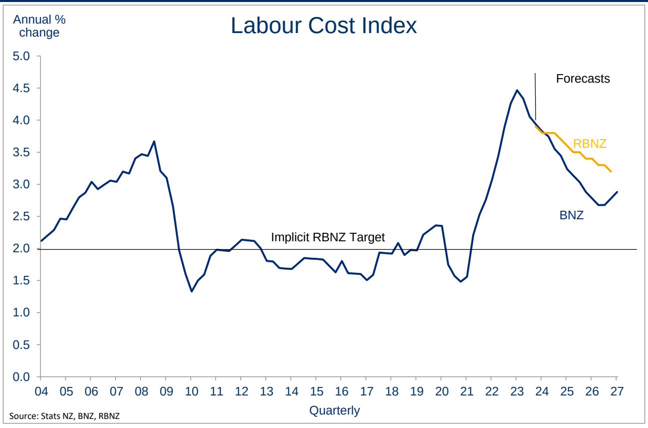
Unemployment headed higher



A weaker labour market is one thing but it's inflation that matters most. In this regard the 0.8% increase in the private sector labour cost index, which delivered a 3.8% annual reading, was bang in line with RBNZ expectations. The increase in the QES (Quarterly Employment Survey) average hourly earnings measure looks like it's a decent notch below the RBNZ's expectation but the RBNZ seems to pay less attention to this measure - understandably so given its historic volatility.

Nonetheless, the downward trend in wage inflation is clear and should moderate input cost pressures for business and, hence, take some pressure off selling prices. Moreover, we do know that a softer labour market also means softer domestic demand, more spare capacity in the economy and, in turn, lower inflationary pressure.

Wage inflation falling



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